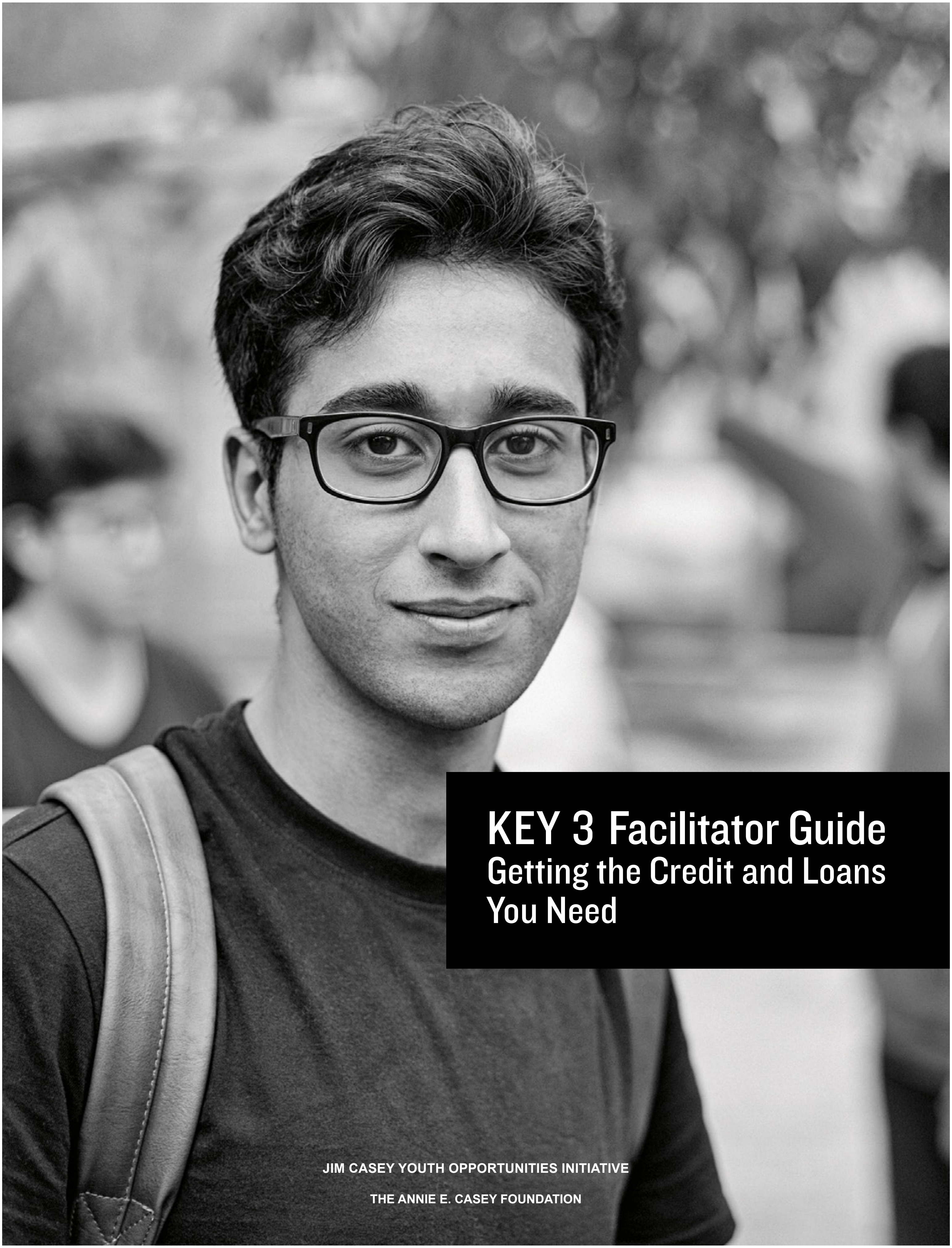


KEY 3 Facilitator Guide
Getting the Credit and Loans You Need

JIM CASEY YOUTH OPPORTUNITIES INITIATIVE

THE ANNIE E. CASEY FOUNDATION

KEY 3 GETTING THE CREDIT AND LOANS YOU NEED

FACILITATOR GUIDE

STOP

Read the *Guide to Facilitating Keys to Your Financial Future* if you have not already done so. This important resource will provide you with information and tips to effectively and efficiently use this curriculum.

Introduction

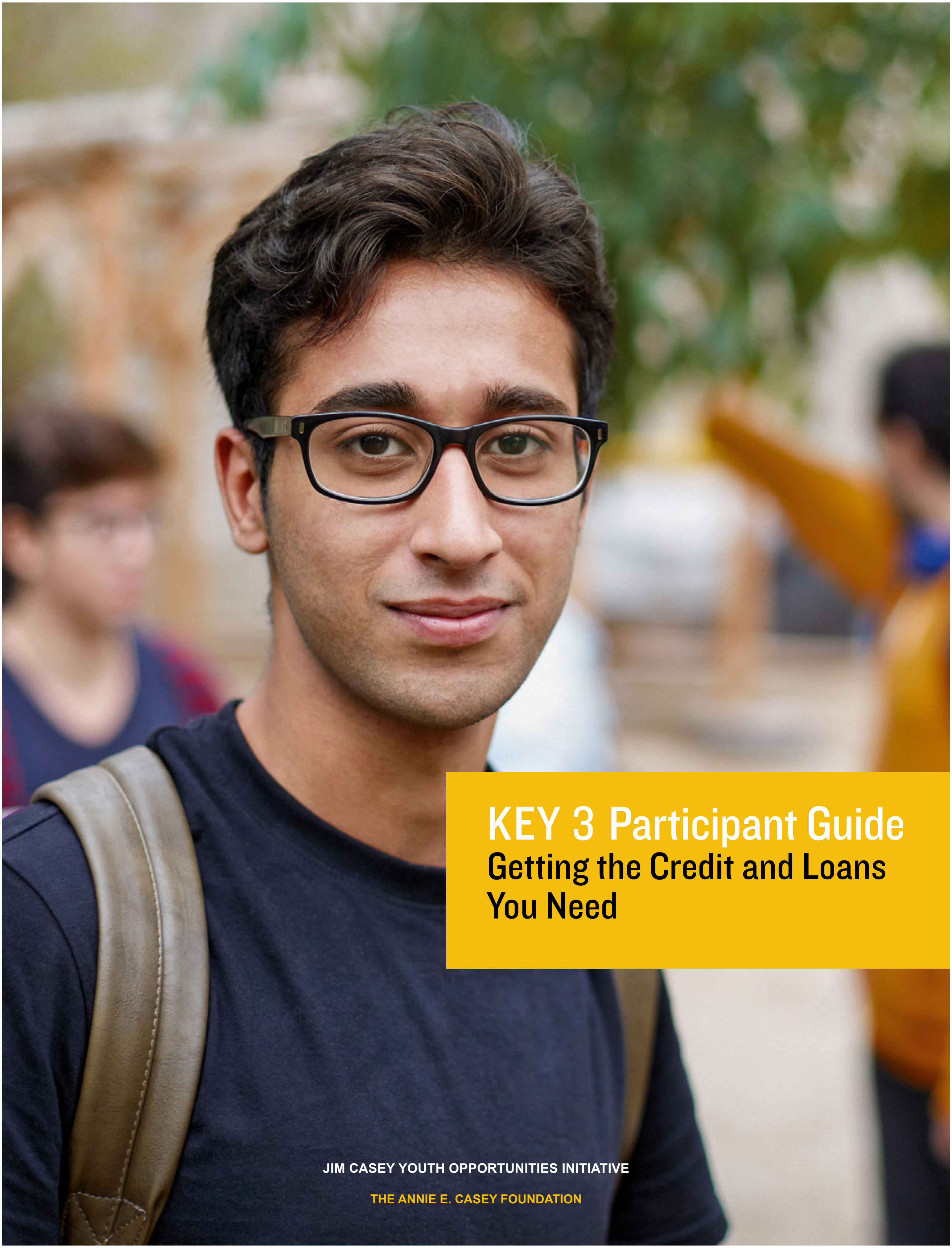
This facilitator guide includes complete instructions for leading activities to provide a highly interactive training for young people. All instructions are next to their corresponding pages in the participant guide — instructions on the left and the participant guide on the right. The participant guide pages included in the facilitator guide have answers to activities and exercises — the answers are NOT included in the participant guides. This is meant to help you as a facilitator understand the range of answers that may come from participants and highlight answers that participants may not have considered.

Where you are prompted to provide information, use the text within the participant guide on the right side. The same information is NOT repeated in the instructions on the left side to keep the instructions as streamlined as possible with a focus on setting up, facilitating and processing activities.

Finally, you may be tempted to cut activities or small group work to save time and present the information instead. Avoid this. If you are pressed for time, cover less material in the key. Discussions, exercises and activities in pairs or small groups are more engaging and therefore, more effective.

Before the training:

- ☐ Set up the room so small groups of participants are sitting around tables.
- ☐ Make sure you have flipcharts or a whiteboard and the appropriate markers. Only use black, blue, brown, purple and dark green markers.
- ☐ Review the facilitator guide. This includes reading the corresponding page in the participant guide. Remember, most content is contained in the participant guide — the right side of this document.
- ☐ Prepare/set up for specific activities using "Notes" in the facilitator guide.
- ☐ Develop your own examples to augment information provided in the participant guide and facilitator guide.
- ☐ Identify local resources where prompted so you can share and discuss them with the participants.



KEY 3 Participant Guide
Getting the Credit and Loans You Need

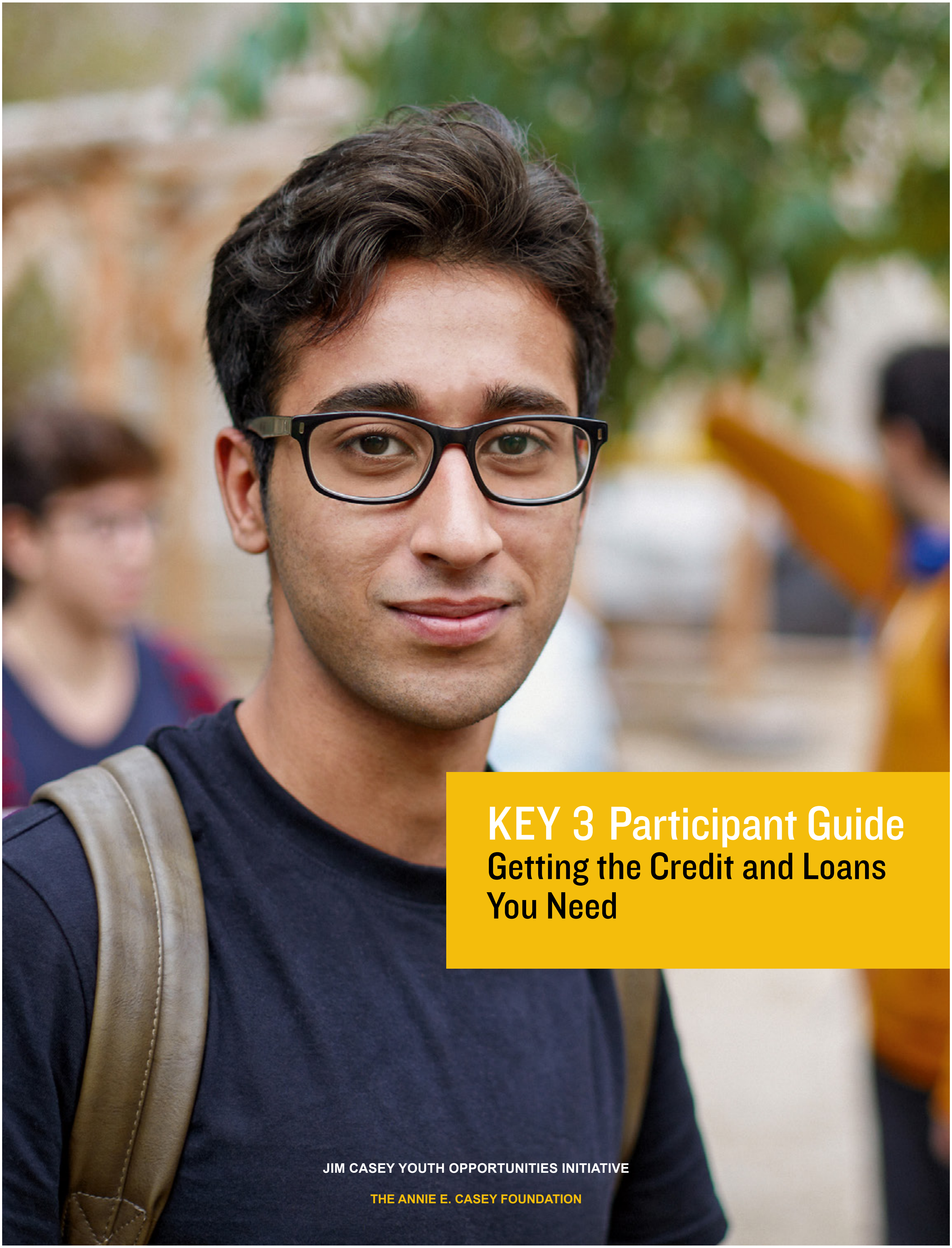
JIM CASEY YOUTH OPPORTUNITIES INITIATIVE

THE ANNIE E. CASEY FOUNDATION

Introduction (continued)

List of training activities:

TRAINING METHOD	TOPIC	TIME ESTIMATE
Presentation	Welcome and Session Objectives	5 minutes
Facilitated Discussion	Borrowing Money — Credit and Loans	5 minutes
Brainstorm	Who Provides Credit?	5 minutes
Role Play	How Are Credit Decisions Made? and Key Activity: What Would You Want to Know if You Were Giving Someone a Loan?	10–15 minutes
Facilitated Discussion	The Different Types of Credit	5 minutes
Find Your Partner	How Credit Works *Need props — please download Key 3: Credit Terms Activity from the website*	10 minutes
Activity With Partner	When You Owe Money	5–10 minutes
Presentation and Small Group Exercise	How You Repay: Installment Loan vs. Revolving Credit and Key Activity: Installment Loan vs. Revolving Credit	15 minutes
Large Group and Pair Exercise	Which Debt to Pay First? and Key Activity: Prioritizing Debt Payments	10 minutes
Presentation (Optional)	The Life Cycle of Debt (Optional)	5 minutes
Presentation and Pair Exercise (Optional)	Paying Off Credit Cards and Key Activity: Reading a Credit Card Statement (Optional)	10 minutes
Facilitated Discussion (Optional)	Comparison Shopping for Credit Cards and Loans and Key to Your Financial Future: Shopping for Credit Cards and Loans Checklist (Optional)	5 minutes
Pair or Small Group Exercise	The Trouble With Some Credit and Key Activity: The Trouble With Some Credit Case Studies	20 minutes
Individual Activity (Optional)	Wrap Up: Getting the Credit and Loans You Need (Optional)	5 minutes
Closing	Key Information From This Section	2 minutes
Closing Activity (Optional)		5 minutes
TOTAL TIME ESTIMATE		Approx. 90 minutes, not including optional activities



KEY 3 Participant Guide
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THE ANNIE E. CASEY FOUNDATION

PRESENTATION
Welcome and Session Objectives

5 minutes

- Welcome participants.

- Explain the following:
  - o ***Keys to Your Financial Future*** is designed to help you plan how to get, manage and use money now and in the future so you can have the life you envision for yourself.
  - o This third section of ***Keys to Your Financial Future*** is about getting the credit and loans you need.
  - o While this topic is related to the information in Key 2 and understanding your credit history, it will focus on the ins and outs of borrowing money, including how credit decisions are made, the different kinds of credit, how credit works, prioritizing debt payments, what it takes to pay off credit cards, comparison shopping for credit and loans and how some loans can lead to trouble.

- Quickly orient participants to the contents in the key using the table of contents on page 2 of the participant guide.

Note: The term "key" is used instead of module or chapter throughout this curriculum.

- Explain the following:
  - o We will be talking about many Key Concepts as a group, but we will also do some activities in pairs or small groups.
  - o Working with a partner or in small groups will help keep this training more interesting and help you practice some of the ideas we are learning together.

Note: Before training, read through the facilitator guide and figure out how to identify the pairs and small groups for each activity. There is guidance with many of the activities, but you may want to think about: group dynamics — consider moving participants to different groups during the training to improve the training environment; group size — if there are only five participants, breaking into small groups may not make sense but working with a partner may; and room arrangement — everyone around one table, participants seated around tables or participants sitting at desks. (Participants sitting at desks is not advisable but may be unavoidable depending on the resources you have in your community for training space.)

KEY 3

Getting the Credit and Loans You Need

"Getting the Credit and Loans You Need" is the third key in *Keys to Your Financial Future*, a financial capability curriculum for young people. This key covers the details of borrowing money, including how credit decisions are made, the different kinds of credit available, how credit works, prioritizing debt payments, what it takes to pay off credit cards, comparison shopping for credit and loans and how some loans can lead to trouble.

What You'll Find in This Key

PRESENTATION (continued)

- Review the session objectives on page 3 of the participant guide — What You're Going to Know or Be Able to Do.

Note: Paraphrase them; don't read them.

What You're Going to Know or Be Able to Do

By the end of this key, you'll know or be able to do the following:

☐ **EXPLAIN** the difference between installment and revolving credit and how they both work.

☐ **EXPLAIN** how interest works when you owe money — the relationship between amount borrowed, rate of interest and the time the money is borrowed.

☐ **DIFFERENTIATE** secured and unsecured credit and explain the reasons why it matters.

☐ **PRIORITIZE** debt payments.

☐ **DEFINE** basic terms associated with applying for and understanding credit.

☐ **READ** a credit card statement.

☐ **COMPARE** credit and loan offers.

☐ **KNOW** where to go in your community to get help with applying for and understanding credit and loan offers.

☐ **UNDERSTAND** the life cycle of debt and rights in debt collection.

FACILITATED DISCUSSION
Borrowing Money — Credit and Loans

5
minutes

ASK: ***What is credit?***

- Listen to responses. Thank them for their ideas.
- Share the definition of credit — the ability to borrow money.

ASK: ***How is this different from debt?***

- Listen to responses. Thank them for their ideas.
- Summarize by stating:
  - o Debt is the result of using credit — it's when you owe someone money.
  - o Share that another name for debt is liability.

ASK: ***Can you have credit and no debt?***

- Listen to responses. Thank them for their ideas.
- Explain that the answer is "yes."
  - o You can have a credit card but have no balance, for example.

ASK: ***Can you have debt, but no credit?***

- Listen to responses. Thank them for their ideas.
- Explain that the answer is "yes."
  - o You can owe money but not be able to get approved for more credit either because you have fallen behind on payments or have too much debt.
  - o You can also owe money to a payday lender or a friend, for example.

- Explain that credit is a powerful tool but can create a bad situation if someone has no training in or little understanding of credit.

ASK: ***When is the best time to use credit?***

- Listen to responses. Thank them for their ideas.

- If not stated, share the best times to use credit:
  - o When investing in an asset that is productive or likely to increase in value. This includes education and training, a house, a well-planned business or a car if essential for you to be productive.

- Explain when use of credit should be avoided using information from Key Concept: When to Use Credit.

KEY Concepts

CREDIT

Credit is the ability to borrow money. You commit or obligate future income to buy items on credit today.

WHEN TO USE CREDIT

When *should* you use credit? If you listen to some financial experts, they will say avoid the use of credit — stay out of debt! But sometimes this is not practical. The best times to use credit are when investing in assets that are likely to increase in value — your training or education, a home or even a well-planned business.

Generally, avoid the use of credit for short-term purchases *especially if they will create a long-term debt obligation.* This commonly happens when payday loans, rent-to-own arrangements or credit cards are used to buy things. For furniture, clothing, appliances and dinner with friends, use your income or create a small stash of savings to pay for these items.

CREDIT vs. DEBT

Credit is the ability to borrow money. It can be a productive asset. When you use credit, you have debt. Debt is when you owe someone or a business money. Debt is a liability.

BORROWING MONEY — CREDIT AND LOANS

Credit is the ability to borrow money. Credit allows you to do the following:

+ **Buy something now and pay for it later.**
+ **Avoid financial crises** — low-priced credit may help you deal with emergencies.
+ **Get a job** — education or training may help you get a good job, and student loans may help you get that education.
+ **Buy an automobile.**
+ **Start a business** — a loan for a key piece of equipment or inventory may lead to a successful business.
+ **Own a home** — most people use a mortgage (a loan for a home) to finance their own home.
+ **Get other assets.**
+ **Achieve your goals and realize your vision.**

When you buy something with credit you commit or obligate future income. Obligating future income means you are giving up income you haven't earned yet to buy something today.

Debt is the result of using credit. It's when you owe money to a person or a business. Debt is a **liability**.

Credit is a powerful tool. But as with all tools, knowing how to use them right is the key to success. A person with no training using a chain saw could create a bad situation. Likewise, a person with no training using credit can create a bad situation for themselves and potentially others. Understanding credit, how to get it and how to use it is a key financial capability skill.

WHO PROVIDES CREDIT?

People or businesses that provide credit are called **creditors** or **lenders**. They make money when they lend money.

What creditors or lenders can you list?

Answers will vary, but may include:
- Banks and credit unions — loans, lines of credit and credit cards.
- Stores — store cards, which are credit cards that can only be used at their stores.
- Auto dealers — car loans.
- Government — student loans.
- Payday lenders.
- Pawnshops.
- Friends and family.
- Online companies — banks, credit unions, payday lenders.
- Mortgage companies.
- Commercial tax preparers — refund anticipation loans.
- Consumer finance companies — signature loans.

BRAINSTORM
Who Provides Credit?

5
minutes

ASK: ***What creditors or lender can you list?***

- Invite a participant to write ideas from the other participants on a flipchart or whiteboard.

Note: See possible or example answers on corresponding page in the participant guide.

SUMMARIZE/TRANSITION

- *You know who lends money, but now we're going to look at how they make the decision to lend money.*

KEY Concepts

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- Payday lenders.
- Pawnshops.
- Friends and family.
- Online companies — banks, credit unions, payday lenders.
- Mortgage companies.
- Commercial tax preparers — refund anticipation loans.
- Consumer finance companies — signature loans.

ROLE PLAY
How Are Credit Decisions Made? and Key Activity: What Would You Want to Know if You Were Giving Someone a Loan?

10–15 minutes

Note: You can present the four C's if time is a concern. This is less engaging but saves time.

- Inform participants that they are going to do a role play.

- Explain to them that each table is the credit committee at a bank or credit union.

Note: You can give each team a piece of card stock and invite them to come up with a name for their bank or credit union.

- Their role is to get information from you (the facilitator role playing the borrower) to decide whether to lend you (the facilitator role playing the borrower) money.

  What would you want to know from me before lending me money?

Visual aid: Write this question on a flipchart or whiteboard for visual reinforcement while participants work in groups.

- They should write each question they come up with on a large, self-adhesive note (5" x 8") or individual pieces of paper.

Note: Instead of having the young people brainstorm ideas in their books or on flipchart paper, use individual self-adhesive notes or paper. This saves time in that you are not rewriting their contributions AND you can organize them into the "C" categories: Capacity, Capital, Collateral and Character.

Note: Hang four blank pieces of flipchart paper.

- Instruct them to "think like a banker" and give them 3–4 minutes to generate their questions.

- Once they are done, collect questions from groups using round-robin technique.

Note: Round-robin technique means that you ask one group to share one idea, then move to the next group to share a different idea, and so on. Once each group has contributed one idea or answer, you start the rotation over again. Repeat as many times as necessary or before participants lose interest.

- Ask groups not to repeat ideas already shared.

HOW ARE CREDIT DECISIONS MADE?

One of the best ways to prepare for borrowing money is knowing how credit decisions are made.

KEY ACTIVITY

What Would You Want to Know if You Were Giving Someone a Loan?

Answers will vary but may include the following:

Note: The word in parentheses indicates the category that each question from the "credit committee" would go in as you organize their responses.

- How much do you want to borrow? (Capacity)
- Do you have a job? Where do you work? How long have you worked there? (Capacity and Character — the length of employment)
- How old are you? (Not a legal question)
- Do you have collateral? (Collateral)
- What if you lose your job — how will you pay us back? (Capital)
- Do you generally pay back people you owe? (Character)
- Do you owe other people money now? How much? (Character and Capacity)
- What is your credit score? (Character)

Just like you, people and businesses that lend money want to know about you — before they lend you the money. They want to know whether you **can** and **are likely** to pay them back. They look at four C's:

Capacity	Collateral
Do you have the financial ability to pay back the loan?	Do you have an asset (such as a car or a home) that can be pledged against the loan?
Capital	**Character**
Do you have other assets that can be used or sold to cover the loan?	Are you likely to pay back the loan as agreed?

Different lenders or creditors emphasize different C's in their decision making. For banks or credit unions issuing credit cards, character — your credit scores and credit reports — will be the most important criteria. For pawn shops or vehicle title lenders, collateral will be the most important criteria. For mortgage lenders, all four C's will be important. Where do lenders get this information?

Capacity	Collateral
From your credit application and verification of your income.	Collateral is most commonly the item you buy using the loan.
Capital	**Character**
From your credit application. This will not be examined for credit cards and most auto loans. This is most important in qualifying for a business loan or mortgage (a loan to buy a home).	Your credit history — your credit reports and scores.

ROLE PLAY (continued)
How Are Credit Decisions Made? and Key Activity: What Would You Want to Know if You Were Giving Someone a Loan?

- Organize ideas into one of the four categories without revealing the categories. For example, if a group said, "Do you have the money to pay back the loan?" — this question is about capacity and would go on the first blank flipchart sheet. If a group said, "Do you normally pay your bills on time?" — this question is about character and would go on the fourth blank flipchart sheet.

- When participants are done, share that they do think like bankers or other creditors.

- Put the name of each category above the appropriate grouping of questions and define the four C's as you do this.
  - o Capacity — Do you have the financial ability to pay back the loan?
  - o Capital — Do you have other assets that can be used or sold to cover the loan?
  - o Collateral — Do you have an asset that can be pledged against the loan?
  - o Character — Are you likely to pay back the loan as agreed?

- Explain that all the information they get about someone wanting to borrow money comes from one of two places:
  - o the application for credit; or
  - o a credit report.

SUMMARIZE/TRANSITION

- *Now that you know how credit decisions are made, you are going to look at two basic kinds of credit and how credit works.*

HOW ARE CREDIT DECISIONS MADE?

One of the best ways to prepare for borrowing money is knowing how credit decisions are made.

KEY ACTIVITY

What Would You Want to Know if You Were Giving Someone a Loan?

Answers will vary but may include the following:

Note: The word in parentheses indicates the category that each question from the "credit committee" would go in as you organize their responses.

- How much do you want to borrow? (Capacity)
- Do you have a job? Where do you work? How long have you worked there? (Capacity and Character — the length of employment)
- How old are you? (Not a legal question)
- Do you have collateral? (Collateral)
- What if you lose your job — how will you pay us back? (Capital)
- Do you generally pay back people you owe? (Character)
- Do you owe other people money now? How much? (Character and Capacity)
- What is your credit score? (Character)

Just like you, people and businesses that lend money want to know about you — before they lend you the money. They want to know whether you **can** and **are likely** to pay them back. They look at four C's:

Capacity	Collateral
Do you have the financial ability to pay back the loan?	Do you have an asset (such as a car or a home) that can be pledged against the loan?
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From your credit application. This will not be examined for credit cards and most auto loans. This is most important in qualifying for a business loan or mortgage (a loan to buy a home).	Your credit history — your credit reports and scores.

FACILITATED DISCUSSION
The Different Types of Credit

5
minutes

- Define installment loans.

ASK: ***What are examples of installment loans?***

- Write participant responses on a flipchart or whiteboard.

- Define revolving credit.

ASK: ***What are examples of revolving credit?***

- Write participant responses on a flipchart or whiteboard.

- Review secured and unsecured credit.

- Review the Key Concept: Asset.

THE DIFFERENT TYPES OF CREDIT

There are basically two different kinds of credit:

Installment loans — With an ***installment loan***, you are approved for a specific loan amount taken out for a specific period. The amount you owe each month is calculated when you take out the loan.

What are examples of installment loans?

- Student loan
- Car or other vehicle loan
- Credit-building loan
- Personal loan
- Mortgage — loan for a home

Revolving credit — With ***revolving credit***, you are approved for a credit limit. You can borrow any amount up to the credit limit. What you pay back each month varies depending on how much you have borrowed during the month.

What are examples of revolving credit?

- Credit cards
- Lines of credit

Credit can also be ***secured*** or ***unsecured***. A secured loan means there is another asset pledged against the loan. If you do not pay the loan as outlined in the terms, the lender can take back the pledged asset. This pledged asset is called collateral.

For a car loan, the car you are buying is the collateral. This means that if you do not pay the loan as agreed, the lender can take back the car. It's often called repossession or repo. With a secured credit card, a deposit held in a certificate of deposit in the issuing bank may be the collateral. This means that if you do not pay your credit card bill as agreed, the bank can take the money held in the certificate of deposit. The bank will probably close your credit card account, too. With a pawn shop loan, the item you have pawned is the collateral.

Unsecured means there is no asset pledged against the loan. Student loans, credit cards and other signature loans are examples of unsecured loans.

KEY Concept

SECURED LOANS OR CREDIT

When a loan or credit is secured, it means you have something of value to back it up. This is often called pledging an asset. Collateral is the name for the asset you pledge.

If you don't pay the loan as agreed in your loan agreement or credit contract, the lender may be able to take the collateral. With cars, the process of taking the collateral is called repossession. With a home purchased using a mortgage (home loan), the process is called foreclosure.

Often, the thing you wanted to get with credit in the first place becomes the pledged asset or collateral.

Loan for:	Collateral or Pledged Asset:
Auto	Your car
Home	Your house
Secured credit card	Deposit in bank (your money)

FIND YOUR PARTNER
How Credit Works

10 minutes

Note: Before the training, download *Key 3: Credit Terms Activity* from the website. Print the terms on one color paper or card stock; print the definitions on another. They are formatted to print on half sheets, so you can cut them in half. There are 22 cards in total — 11 pairs.

- Instruct participants to stand up and spread out throughout the training room.

- Distribute both the term and definition cards randomly so that each person gets one card.

Note: If you have a small group, you can do this activity more than one time. Just make sure you distribute matching sets — the term and the definition — at the same time.

- Explain that they are either a term or a definition.

- Instruct participants to find their match as quickly as possible.

- Once everyone has found their match, ask each pair to read the term and then the definition. Add more explanation where needed using the information from the participant guide on the opposite page.

Note: This is an active way to convey definitions.

How Credit Works

When you use credit, you are borrowing money. The money you borrow is called **principal**.

Lenders and creditors lend money to make money. You must pay the lender or creditor a price to borrow the money. **The price you pay is *interest*.** Interest is often quoted as the percentage of the loan that you pay each month you are borrowing the principal. Most lenders and creditors charge fees, too.

Because interest rates and fees vary from lender to lender, they must also calculate and explain the interest and fees as an ***annual percentage rate*** **(APR)**. The APR lets you compare credit offers. The APR does not include fees you may be charged if you are late with your payment — the APR only includes fees that apply to everyone taking out that loan.

Interest rates can be ***fixed*** or ***variable***. Fixed means the interest rate will stay the same. Variable means it may change. There are many reasons the rate can vary.

The ***terms of the loan include*** the interest rate, kind of interest rate (fixed or variable), the reason a variable rate may change, when and where payments are due and fees as well as other information about the loan. Sometimes these are called the terms and conditions of the loan.

The ***loan term*** also means how long the loan may last. The length of a loan may be two weeks, one year or 30 years, for example.

ACTIVITY WITH PARTNER
When You Owe Money

5–10 minutes

- Instruct participants to work with a partner.

- Ask them to look at the table in their workbook.

- Have them answer these three questions:
    - What happens to the monthly payment when the interest rate increases but nothing else changes?
    - What happens to the monthly payment with the amount of time you have to pay back the loan increases but nothing else changes?
    - What happens to the monthly payment when the amount you borrow increases but nothing else changes?

Visual aid: Write these questions on a flipchart or whiteboard.

- After three minutes, ask participants to share what they noticed. Use the answers below:
    - What happens to the monthly payment when the interest rate increases but nothing else changes? The monthly payment INCREASES.
    - What happens to the monthly payment with the amount of time you have to pay back the loan increases but nothing else changes? The monthly payment DECREASES. But you are now paying for a longer period.
    - What happens to the monthly payment when the amount you borrow increases but nothing else changes? The monthly payment INCREASES.

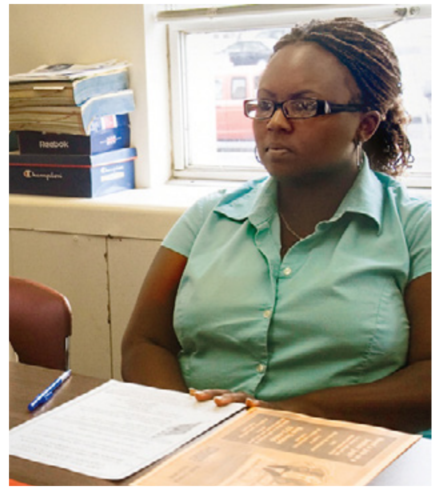
Note: Understanding this is fundamental to understanding how credit and loans work in terms of the payment. You may want to discuss this further using the following example, but you will have to write it on a flipchart/whiteboard. **This is optional.**

- Set up the example using the following:
    - You want to borrow money to buy a new car. You can get a three-year loan or a six-year loan for $15,000 at 7% APR.

Visual aid: Put the following on a flipchart or whiteboard:

Three-year auto loan	Six-year auto loan
Monthly payment: $460	Monthly payment: $256
Total interest: $1,700	Total interest: $3,400

When You Owe Money



How much you pay for credit or a loan is based on the following:

- **The amount you borrow.**
- **The interest rate or APR.**
- **The term of the loan — how long you borrow the money.**

A change in any of these three factors will alter your monthly payment and the total interest you pay.

Here is an example. If you borrow **$6,000 for a car** and pay **4 percent interest** for three years, you will pay:

- $177.14 every month; and
- $274.62 in interest.

	Change the Interest Rate to 6 Percent	Change the Amount Borrowed to $8,000	Change the Term of the Loan to Five Years
Monthly payment	$182.53	$236.19	$110.50
Total interest paid	$417.48	$366.17	$489.36

KEY RIGHT Truth in Lending Act

The Truth in Lending Act (TILA) is a federal law to ensure you are treated fairly in the lending marketplace. TILA requires that borrowers receive written disclosures about important terms of credit BEFORE they are legally bound to pay the loan.

These important terms include:

- the APR;
- finance charge — cost of credit expressed as a dollar amount;
- amount financed — the dollar amount you are borrowing; and
- total of payments — the sum of all the payments that you will have made at the end of the loan.

TILA disclosures will also include other important terms such as the number of payments, the monthly payment, late fees and whether you can prepay your loan without a penalty.

In addition, TILA includes laws about how credit card issuers figure out the amount you owe and provides you with the right to dispute billing errors, among many other protections.

ACTIVITY WITH PARTNER (continued)
When You Owe Money

- **ASK:** ***What are the pros and cons of each loan?***

- Write participants responses on a flipchart or whiteboard. Use the following answers to add to the discussion.

  - o Three-year auto loan

PRO	***CON***
• Pay less total interest • Pay off loan faster	• Higher monthly payment — can my budget handle this?

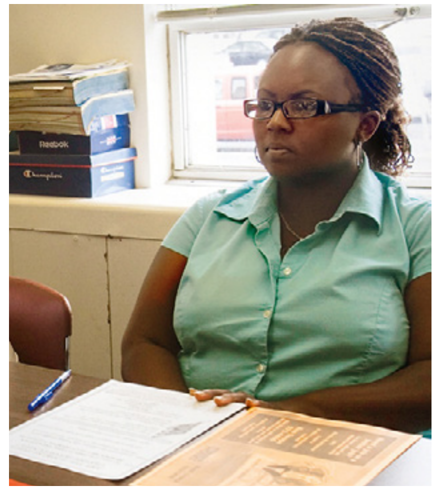
  - o Six-year auto loan

PRO	***CON***
• Lower monthly payment	• Must make loan payment for twice as long — six years versus three years • Pay double the interest

- **ASK:** ***How do you make the decision about which loan to get if you qualify for both?***

- Listen to participant responses. Use the following to add to their contributions or summarize:
  - o It's always best to pay less interest, but the key decision becomes whether your budget can handle the monthly payment. Even more important than interest is whether you can make the payment on time and consistently.
  - o To pay less you can:
    - Shop around for a cheaper car — borrow less money.
    - Shop around for a lower interest rate — this will be based on your credit score.
    - You can opt for a longer-term loan. But this should be your last resort — you will pay more interest and be in debt longer with a longer-term loan.

When You Owe Money



How much you pay for credit or a loan is based on the following:

+ **The amount you borrow.**
+ **The interest rate or APR.**
+ **The term of the loan — how long you borrow the money.**

A change in any of these three factors will alter your monthly payment and the total interest you pay.

Here is an example. If you borrow **$6,000 for a car** and pay **4 percent interest** for three years, you will pay:

+ $177.14 every month; and
+ $274.62 in interest.

	Change the Interest Rate to 6 Percent	Change the Amount Borrowed to $8,000	Change the Term of the Loan to Five Years
Monthly payment	$182.53	$236.19	$110.50
Total interest paid	$417.48	$366.17	$489.36

KEY RIGHT Truth in Lending Act

The Truth in Lending Act (TILA) is a federal law to ensure you are treated fairly in the lending marketplace. TILA requires that borrowers receive written disclosures about important terms of credit BEFORE they are legally bound to pay the loan.

These important terms include:

+ the APR;
+ finance charge — cost of credit expressed as a dollar amount;
+ amount financed — the dollar amount you are borrowing; and
+ total of payments — the sum of all the payments that you will have made at the end of the loan.

TILA disclosures will also include other important terms such as the number of payments, the monthly payment, late fees and whether you can prepay your loan without a penalty.

In addition, TILA includes laws about how credit card issuers figure out the amount you owe and provides you with the right to dispute billing errors, among many other protections.

PRESENTATION AND SMALL GROUP EXERCISE
How You Repay: Installment Loan vs. Revolving Credit and Key Activity: Installment Loan vs. Revolving Credit

15 minutes

- Explain that how you pay back the loan also depends on the kind of loan and term of the loan.
- Review Key Concept: Understanding Variable Interest Rates.
- Read the scenario about Suraj and Darius in Key Activity: Installment Loan vs. Revolving Credit.
- Instruct participants to work in small groups to answer the questions that follow the installment loan and revolving loan payment charts.

Note: You may want to provide a quick orientation to the charts before having the groups complete the exercise. You can say the following:

The "balance" is the amount owed. In the first row and column, the balance is the amount borrowed. The second row is the monthly payment. Part of this payment goes to interest and the other part of the payment goes to principal. The part of the payment going to interest can be found on the interest paid row. Finally, the ending balance is what is owed after the payment has been applied. The ending balance for one billing period becomes the balance for the next billing period.

- Provide 5–7 minutes to complete.
- Review answers in a participatory manner.

SUMMARIZE/TRANSITION

- *Even when you know how different types of loans work, it can be confusing to understand which loans are most important to pay.*
- *While you must pay all your debt, the consequences for late or nonpayment for some debts can be bigger.*
- *Understanding this can help you prioritize debts if you should find you cannot make all your payments one month.*

How You Repay: Installment Loan vs. Revolving Credit

How you pay back the loan depends on the kind of loan and the terms of the loan. Payments for installment loans are calculated over the entire length of the loan. You pay the same amount every month. With each payment, some of it covers interest and some of it goes to pay off the principal — the amount you borrowed. This is called ***amortization*** of the loan.

Student loan, car loan, small business loan and home loan (mortgage) payments are calculated like this.

Revolving credit loans are different. The amount you pay each month varies based on the money you have borrowed. Credit cards are the most common example. Banks use different methods to calculate payments.

KEY Concept

UNDERSTANDING VARIABLE INTEREST RATES

If a credit card or loan has a variable interest rate, the interest rate will change as market interest rates change. Commonly, variable rates are based on the prime rate. Prime rate is the interest rate banks charge for their best customers. The "best customers" are generally large corporations. It's the lowest rate at which money can be commercially borrowed.

Here is an example of a variable rate credit card: "We add 11 percent to prime rate for purchases and balance transfers." If the prime rate were 5 percent, the APR of this credit card would be 16 percent.

Variable rate credit cards and loans often start with an interest rate below those with fixed rates. This makes them attractive in the short term for most people. There is a risk, however, that the rates could increase.

Because the rates vary, the payments change. This makes budgeting for a variable rate loan or credit card payment more difficult.

KEY ACTIVITY

Installment Loan vs. Revolving Credit

Suraj and Darius both needed to borrow $1,000 to pay for books and fees. The cost of these items were over the amounts they received for college from Pell Grants and Education and Training Vouchers as well as scholarships. Darius decided to apply for a credit-building loan at a community bank to get the money. He borrowed $1,000 at 10 percent for 12 months. Suraj got a credit card. It had an introductory rate of 10 percent, with the rate increasing to 13.99 percent plus prime after 12 months.

Installment Loan — Darius's Loan

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Balance	$1,000.00	$920.42	$840.17	$759.26	$677.67	$595.40
Payment	$87.92	$87.92	$87.92	$87.92	$87.92	$87.92
Interest paid	$8.33	$7.67	$7.00	$6.33	$5.65	$4.96
Ending balance	$920.42	$840.17	$759.26	$677.67	$595.40	$512.45

How You Repay: Installment Loan vs. Revolving Credit and Key Activity: Installment Loan vs. Revolving Credit

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	TOTALS
Balance	$512.45	$428.80	$344.46	$259.41	$173.66	$87.19	
Payment	$87.92	$87.92	$87.92	$87.92	$87.92	$87.19	$1,054.99
Interest paid	$4.27	$3.57	$2.87	$2.16	$1.45	$0.73	$54.99
Ending balance	$428.80	$344.46	$259.41	$173.66	$87.19	0	0

Revolving Credit Loan — Suraj's Loan

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Balance	$1,000.00	$958.33	$918.40	$880.14	$843.46	$808.32
Payment	$50.00	$47.92	$45.92	$44.01	$42.17	$40.42
Interest paid	$8.33	$7.99	$7.65	$7.33	$7.03	$6.74
Ending balance	$958.33	$918.40	$880.14	$843.46	$808.32	$774.64

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	TOTALS
Balance	$774.64	$742.36	$711.43	$681.79	$653.38	$626.16	
Payment	$38.73	$37.12	$35.57	$34.09	$32.67	$31.31	$479.93
Interest paid	$6.46	$6.19	$5.93	$5.68	$5.44	$5.22	$79.99
Ending balance	$742.36	$711.43	$681.79	$653.38	$626.16	$600.07	$600.07

How much is Suraj's monthly payment vs. Darius's?

Suraj's monthly payment changes every month, but it's less than Darius's. Darius's payment is $87.92.

How much total interest does Darius pay vs. Suraj?

Darius pays $54.00 in interest. Suraj pays $79.99.

What are the balances left on Darius's and Suraj's loans?

Darius's loan is completely paid off, so his balance is $0. Suraj still owes $600.07.

Which loan seems like a better deal? Why?

The installment loan. Overall, Darius will pay a lot less interest. But Suraj's monthly payment is less than Darius's. Even though Darius paid more each month, his loan is completely paid off. Suraj still owes more than half of the money he borrowed. In fact, if Suraj continues to make minimum payments only, he will pay nearly $120 more in interest until the debt is fully repaid. (NOTE: This is based on the interest rate increasing to 13.99 percent plus prime after the initial 12-month period.)

Which kind of loan seems like it would be easier to manage in your budget? Why?

The installment loan, because the payment amount is the same every month. But, if cash was very tight, the credit card debt may be easier to manage because the payment is less each month. It will take Suraj approximately two more years to pay off the credit card IF he continues to make minimum payments only and with the interest rate increasing to 13.99 percent plus prime.

LARGE GROUP AND PAIR EXERCISE
Which Debt to Pay First and Key Activity: Prioritizing Debt Payments

10 minutes

- List the following on a flipchart or whiteboard:
  - Secured credit card
  - Auto loan
  - Mortgage
  - Pawnshop loan
  - Vehicle title loan
  - Student loan

Note: Explain what a vehicle title loan is if needed using the following:

A vehicle title loan is a loan you get in exchange for the title to your vehicle. You are often only able to borrow a fraction of what your vehicle is worth, and if you do not make payments OR renew the loan, the lender can repossess your car even though you only got a small amount of money. People use these for quick cash, but one out of every five people who use these loans lose their vehicles to the lender (according to the Consumer Financial Protection Bureau). And, if people do not lose their vehicle, they most commonly end up renewing the loan over and over, costing a lot of money.

- Give each participant two different color dots or sticky notes.

- Say the following:
  - *You have all these debts.*
  - *You can only pay two of them this month.*
  - *Which two debts would you pay above all the others?*
  - *Place the [insert color] dot/sticky note by the debt you think is most important to pay.*
  - *Place the [insert color] dot/sticky note by the debt you think is second most important to pay.*

- Facilitate a discussion with participants about the choices they have made.

- Provide time for several participants to explain their reasoning particularly those that have different answers.

- Review what you can expect if you are late with most credit or loan payments as well as if you have multiple late or missing payments, stop paying on loans or go into default.

- Review the Key Right: Administrative Wage Garnishment.

- Review the "what you risk losing chart" based on different loan types.

Which Debt to Pay First?

When you take on debt, you are required to pay it back. However, you may run short on money from time to time and not be able to make all your debt payments. How do you prioritize them? Consider consequences of not paying debts.

With most credit or loan payments, if you are late, you can expect:

+ a negative entry on your credit reports;
+ a possible drop in your credit scores;
+ the consequences that come with negative information on credit reports and drops in credit scores — harder to qualify for and/or may pay more for credit or services;
+ late fees; and
+ possibly higher interest rates.

If you have multiple late or missed payments, stop paying on loans or go into default, you risk:

+ collections;
+ lawsuits from a creditor;
+ garnishment (a portion of your paycheck or money from an account is taken to pay what you owe, which requires a court order);
+ loss of driver's license; and
+ reincarceration for nonpayment of some criminal justice debt.

When it comes to secured loans, you risk the loss of the item you used to secure the loan. In some cases, this is called **repossession**.

KEY RIGHT

Administrative Wage Garnishment

If you do not pay the federal or state government money you owe, you may experience administrative wage garnishment. With administrative wage garnishment, there is no court hearing. If you owe money on federal student loans or for child support, for example, your employer may get an order to withhold part of your paycheck. This is then sent to the federal or state agency you owe money to. This means less money in your paycheck.

You will receive written notice 30 days before administrative wage garnishment begins. You can enter into a repayment agreement with the agency to avoid the garnishment.

The maximum that can be withheld through administrative wage garnishment is 15 percent of your income after federal and state deductions have been subtracted.

TYPE OF LOAN	YOU RISK LOSING
Secured credit card	The money you placed in deposit to secure the credit card
Auto loan	Your car
Mortgage (loan for a home)	Your home
Pawnshop loan	The item you pawned
Vehicle title loan	The vehicle named in the title you used to secure the loan
Student loan	Your good credit history and part of your paycheck and possibly all your savings to garnishment

Sometimes, one late payment may trigger the loss of your item. Sometimes, it may take several late payments. This depends on the contract you sign when you get the credit or loan.

LARGE GROUP AND PAIR EXERCISE (continued)
Which Debt to Pay First and Key Activity: Prioritizing Debt Payments

ASK: ***Would you change your ranking based on this information?***

- Invite a few people that indicate "yes" to share the reasons they would change their rankings.
- Instruct participants to work in pairs to answer the question following Ming's Story.
- Review the answers using the answer key to the right.

Note: Use this opportunity to talk about the role of self-advocacy in financial capability.

> *While Ming must make all her payments eventually, talking with her creditors and explaining her situation during this rough patch may keep her financial problems from becoming larger.*
>
> *Often people feel like creditors will not work with them. But in Ming's situation, it is likely they would particularly if she has paid regularly in the past — on time and in full.*
>
> *But, it takes self-advocacy. She must contact the creditor, explain her situation and demonstrate a willingness and commitment to working with them until she gets on track.*

PRESENTATION (optional)
The Life Cycle of Debt

5
minutes

- Explain the life cycle of debt.

Visual aid: Draw life cycle of debt — both versions — on a flipchart or whiteboard for visual reinforcement when you cover.

- Explain the life cycle of debt when a debt goes to collections.
- Ask participants if they have any stories to share about paying off debt and the parts of the debt life cycle they have experienced if appropriate.

KEY ACTIVITY

Prioritizing Debt Payments

Ming's Story

Ming uses her car to get to and from work and classes at the community college. She also helps transport her siblings to and from some of their afterschool activities. She has an automobile loan, two credit card debts and a medical debt she pays monthly. She missed work due to illness so she had a smaller paycheck. She also had some unexpected expenses and found she cannot afford all her debt payments.

How should Ming prioritize her debts?

1. Automobile loan — nonpayment could lead to repossession, which would affect her ability to earn income, attend school and support her siblings.

2. If she has always paid her credit card bills on time, she may be able to negotiate interest only for a month or two while she accumulates enough income to get back on track.

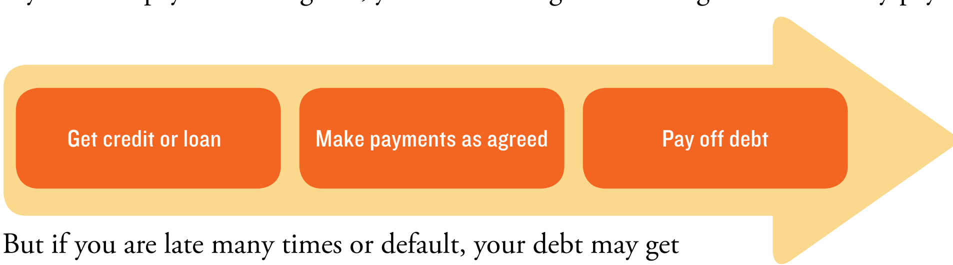
3. If she has a good relationship with her health care provider and the debt is not about to be turned over to collections, she may be able to negotiate a one-month break in payment.

4. With respect to any temporary arrangement — with credit card issuers or health care providers — she must get the agreement in writing.

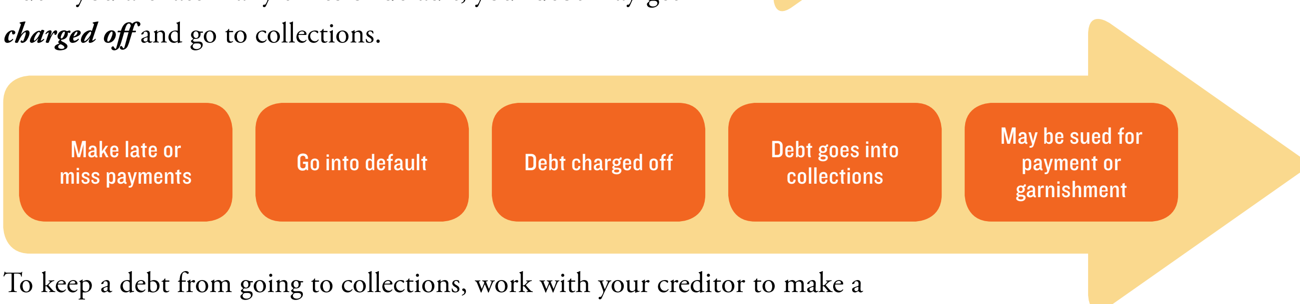
THE LIFE CYCLE OF DEBT

When you use credit or get a loan, you have debt. You may also have debt resulting from a bill you did not or could not pay — medical debt, debt to a cell phone provider, debt to a state agency (child support) or debt to a bank or credit union, for example.

If you make payments as agreed, you will be "in good standing" and eventually pay off the debt.



But if you are late many times or default, your debt may get ***charged off*** and go to collections.



To keep a debt from going to collections, work with your creditor to make a payment arrangement you can afford. Get the new agreement in writing.

PRESENTATION (optional) (continued)
The Life Cycle of Debt

- Review the Key Right: Fair Debt Collection Practices Act.

- Complete the Key Resource: Getting Help With Collections, Garnishment and Lawsuits with participants.

Note: Before this session, be sure to identify these resources locally for participants.

PRESENTATION AND PAIR EXERCISE (optional)
Paying Off Credit Cards and Key Activity: Reading a Credit Card Statement

10 minutes

- Present information on paying off credit cards.

KEY RIGHT **Fair Debt Collection Practices Act**

The Fair Debt Collection Practices Act (FDCPA) says what third-party debt collectors can and cannot do. This law does not apply to businesses trying to collect their own debts.*

The law states that debt collectors may not harass, oppress or abuse you or any other people they contact. Examples of harassment include:

- making repeated phone calls that are intended to annoy, abuse or harass you or any person answering the phone;
- using obscene or profane language;
- threatening violence or harm;
- publishing lists of people who refuse to pay their debts (this does not include credit reports); and
- calling you without telling you who they are.

The law also says debt collectors cannot use false, deceptive or misleading practices, including:

- misrepresenting the debt, including the amount owed;
- saying that the person on the phone is an attorney (unless they are an attorney);
- threatening to have you arrested; and
- making threats to do things that cannot legally be done or that the debt collector has no intention of doing.

*Some states extend the FDCPA to original creditors collecting debts. Some do not or have different laws. Check your state attorney general's office or visit www.bbb.org/financial-building-blocks/collection-laws for more information.

KEY RESOURCE

GETTING HELP WITH COLLECTIONS, GARNISHMENT AND LAWSUITS

If your debt has been charged off and it is in collections or you have been notified of a lawsuit or garnishment, get help.

Pro bono attorney network contact:________________________________

Legal aid contact:________________________________

Nonprofit consumer credit counseling contact: ________________________________

PAYING OFF CREDIT CARDS

Credit cards are convenient. They give you access to money you do not have and let you buy things without having cash; provide you with a record of your spending; and can build your credit if you pay your bills on time and use less than 30 percent of your credit limit. Also, if your credit card is stolen and you report it, the most you could ever be liable for is $50.

But credit cards get people in trouble. People charge things on credit cards believing they will be able to pay them off when the bill comes. But then other priorities win out over paying off the credit card in full. So a ***minimum payment*** is sent in instead.

While paying the minimum payment on time keeps you in good standing, this is exactly what credit card issuers want you to do. This is how they make a lot of their money.
A better approach, if you are carrying a credit card balance, is to pick a fixed amount above your minimum payment and pay that amount every month. You will:

+ pay off your credit card balance faster; and
+ pay a lot less interest.

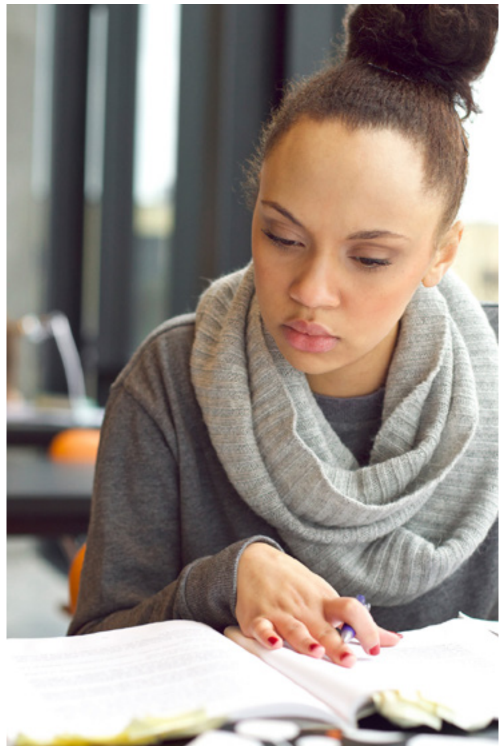
PRESENTATION AND PAIR EXERCISE (optional) (continued)
Paying Off Credit Cards and Key Activity: Reading a Credit Card Statement

- Review Key Right: Lost or Stolen Credit Cards.
- Review Key Concept: Credit Card Issuers.
- Instruct participants to turn to Key Activity: Reading a Credit Card Statement on page 14.
- Ask participants to work in pairs.
- Instruct participants to answer the questions that follow the sample credit card statement on page 16.

KEY Concept

CREDIT CARD ISSUERS

Banks and credit unions are credit card issuers. Visa and Mastercard are the payment processing networks that make credit cards work. Discover and American Express are both credit card issuers and payment processing networks. When you apply for a credit card, it is the credit card issuer that approves or denies your application.



KEY RIGHT

Lost or Stolen Credit Cards

If your credit card or credit card number is lost or stolen and fraudulently used by someone else, the amount you must pay for these charges is limited.

Often, you won't owe anything once you report the card lost or stolen. The most you will owe is $50.

KEY ACTIVITY

Reading a Credit Card Statement

Credit card statements contain a lot of information. Use the questions on page 16 to read this credit card statement.

Summary of Account Activity	
Previous Balance	$535.07
Payments	-$450.00
Other Credits	$0.00
Purchases	+$517.12
Balance Transfers	+$785.00
Cash Advances	+$318.00
Past Due Amount	+$0.00
Fees Charged	**+$69.00**
Interest Charged	**+$11.36**
New Balance	$1,786.00
Credit limit	$2,000.00
Available credit	$214.00
Statement closing date	3/22/2012
Days in billing cycle	30

QUESTIONS?

Call Customer Service 1-XXX-XXX-XXXX

Lost or Stolen Credit Card 1-XXX-XXX-XXXX

Please send billing inquiries and correspondence to:
PO Box XXXX, Anytown, Anystate XXXXX

Payment Information	
New Balance	$1,786.00
Minimum Payment Due	$53.00
Payment Due Date	4/20/2012

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a $35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	8 years	$2,785
$62	3 years	$2,232 *(Savings = $553)*

If you would like information about credit counseling services, call 1-800-XXX-XXXX.

KEY ACTIVITY

Reading a Credit Card Statement (continued)

Notice of Changes to Your Interest Rate

You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:

Transactions made on or after 4/9/12: As of 5/10/12, the Penalty APR will apply to these transactions. We may keep the APR at this level indefinitely.

Transactions made before 4/9/12: Current rates will continue to apply to these transactions. However, if you become more than 60 days late on your account, the Penalty APR will apply to those transactions as well.

Important Changes to Your Account Terms

The following is a summary of changes that are being made to your account terms. For more detailed information, please refer to the booklet enclosed with this statement.

These changes will impact your account as follows:

Transactions made on or after 4/9/12: As of 5/10/12, any changes to APRs described below will apply to these transactions.

Transactions made before 4/9/12: Current APRs will continue to apply to these transactions.

If you are already being charged a higher Penalty APR for purchases: In this case, any changes to APRs described below will not go into effect at this time. These changes will go into effect when the Penalty APR no longer applies to your account.

Revised Terms, as of 5/10/12	
APR for Purchases	16.99%

Transactions

Reference Numbers	Trans Date	Post Date	Description of Transaction or Credit	Amount
5884186PS0388W6YZ	2/22	2/23	Store #1	$133.74
854338203FS8OO0Z5	2/25	2/25	Pymt Thank You	$450.00-
564891561545KOSHD	2/25	2/26	Store #2	$247.36
1542202074TWWZV48	2/26	2/26	Cash Advance	$318.00
4545754784KOHUIOS	2/27	3/1	Balance Transfer	$785.00
2564561023184102331	2/28	3/1	Store #3	$34.32
045148714518979874	3/4	3/5	Store #4	$29.45
0547810511898718AF	3/15	3/17	Store #5	$72.25
		FEES		
9525156489SFD4545Q	2/23	2/23	Late Fee	$35.00
84151564SADS8745H	2/27	2/27	Balance Transfer Fee	$23.55
2564891561894515 16L	2/28	2/28	Cash Advance Fee	$10.90
			TOTAL FEES FOR THIS PERIOD	**$69.45**
		INTEREST CHARGED		
			Interest Charge on Purchases	$6.57
			Interest Charge on Cash Advances	$4.79
			TOTAL INTEREST FOR THIS PERIOD	**$11.36**

2012 Totals Year-to-Date	
Total fees charged in 2012	$90.14
Total interest charged in 2012	$18.74

PRESENTATION AND PAIR EXERCISE (optional) (continued)
Paying Off Credit Cards and Key Activity: Reading a Credit Card Statement

- After 5 minutes, review the answers using the answer key at the right.

SUMMARIZE/TRANSITION

- *Reviewing your credit card statement is a key financial capability — it protects you.*
- *Make sure all the charges are yours. If you find charges that do not belong to you, call your credit card company immediately. This could mean someone is fraudulently using your account.*
- *In particular, check for recurring charges you thought you canceled. Recurring charges mean they happen every billing cycle. Netflix and Hulu are common recurring charges people have — they sign up for the free trial, forget to cancel and now have a recurring charge. When you do cancel these types of services (which include gym memberships, television services, other subscriptions and more), make sure you check your statements for several months to ensure the charges stay off your statement.*
- *Understand what happens if you are late with payment — fees and possibly penalty interest rates.*
- *Understand what happens when you pay the minimum payment. The Minimum Payment Warning is included on all credit card statements because it's required by law.*
- *Making minimum payment is a credit situation to avoid.*
- *But before selecting a credit card or any kind of loan, it's important to shop around and compare different options.*

KEY ACTIVITY

Reading a Credit Card Statement (continued)

Interest Charge Calculation

Your Annual Percentage Rate (APR) is an annual interest rate on your account.

Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99% (v)	$533.32	$6.57
Cash Advances	21.99% (v)	$265.00	$4.79
Balance Transfers	0.00%	$575.67	$0.00
(v) = Variable Rate			

SOURCE: National Credit Union Administration. (n.d.). *Understand your credit card statement.* Retrieved August 1, 2018, from www.mycreditunion.gov/Pages/pocket-cents-understanding-credit-card-statement.aspx

What is the current balance? Where did you find it?

$1,178; Summary of Account Activity

When is the payment due? Where did you find this information?

4/20/12; Summary of Account Activity and Payment Information

What is the minimum payment?

$53 (3% of the balance)

What happens if the payment is late? Where did you find this information?

$35 fee and penalty interest rate of 28.99%; Payment Information

How long will the balance take to repay if only the minimum payment is made each month assuming no new charges?

8 years. This information can be found in the "Payment Information" section of the credit card statement.

How long will the balance take to repay if making a fixed $62 payment each month assuming no new charges?

3 years. This information can be found in the "Payment Information" section of the credit card statement.

What is the APR on purchases? Cash advances? Balance transfers?

14.99%; 21.99%; 0%

Describe three different kinds of transactions made during the month. Where did you find them?

1) Store
2) Cash Advance
3) Balance Transfer; Transactions

FACILITATED DISCUSSION (optional)
Comparison Shopping for Credit Cards and Loans and Key to Your Financial Future: Shopping for Credit Cards and Loans Checklist

5
minutes

- Explain that it's important to compare credit cards or loans before applying or agreeing to them.

- Explain each row on the checklist.

- Be sure to point out that some of the rows apply to credit cards only — 3, 7 and 10 — and some apply to loans only — 4, 8 and 9.

ASK: ***What piece of information is most important for selecting a credit card?***

- Answers will vary. Ask participants to explain their answers.

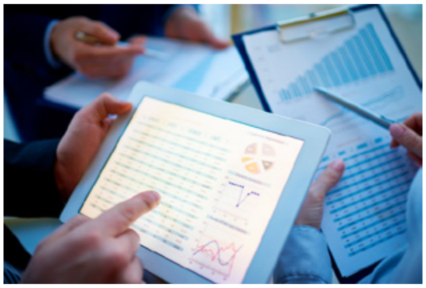
ASK: ***What piece of information is most important for selecting a loan?***

- Answers will vary. Ask participants to explain their answers.

SUMMARIZE/TRANSITION

- *Even when you shop around, there are some credit situations that nearly always cause trouble.*

- *We're going to examine five situations that show the trouble with some credit.*



COMPARISON SHOPPING FOR CREDIT CARDS AND LOANS

Before getting a credit card or loan, be sure to comparison shop. Comparison shopping is a key financial capability skill.

Key to Your Financial Future: Shopping for Credit Cards and Loans Checklist

Compare the same kind of loan or credit card from different creditors on key terms using this checklist to make sure you get the best deal.

	CREDIT CARD OR LOAN 1	CREDIT CARD OR LOAN 2	CREDIT CARD OR LOAN 3
1. Annual percentage rate (APR)			
2. Fixed or variable rate • If variable, when does the rate change? • By how much?			
3. Introductory rate • When does it change? • What does it change to? (credit cards only)			
4. Finance charge - total cost of the loan over the life of the loan (loans only)			
5. Fees not included in APR			
6. Penalty fees and rate • How much? • When do they kick in?			
7. Credit limit (credit cards only)			
8. Monthly payment amount (loans only)			
9. Prepayment penalties • How much? • When do they kick in? (loans only)			
10. Rewards (credit cards only)			
11. Other important terms or conditions			
Best option for me:			

PAIR OR SMALL GROUP EXERCISE
The Trouble With Some Credit and Key Activity: The Trouble With Some Credit Case Studies

20 minutes

- Ask participants to work in pairs or small groups.

- Depending on the size of the group and the time you have remaining, assign each pair or group two, three or all case studies.

Note: One case study per group is not recommended.

- If you assign each pair or group only two case studies, provide a shorter amount of time for group work and longer for pairs or small groups to present their answers to the other participants.

- If the pairs and groups complete all the exercises, then allow most of the time to be spent in pairs or groups and quickly review the answers as a large group.

- Instruct participants to read each case study and answer the questions that follow it.

THE TROUBLE WITH SOME CREDIT

There are some credit situations that can cause big problems for young people. Understanding credit situations likely to create problems and financial struggles is a key financial capability skill. In general, plan to avoid these situations.

KEY ACTIVITY

The Trouble With Some Credit Case Studies

Read each scenario and answer the questions that follow.

Jamal Visits a Payday Lender

Jamal was short on money. Living on his own since transitioning out of foster care, he knew where to get resources if he needed them. This month, he knew he would not be able cover his rent the following week with the amount in his checking account. And payday was still two weeks away.

Jamal went to Cash Fast and got a payday loan. In exchange for $500, he provided a $525 check post-dated for three days after the day he would be paid. He was confident he would have the cash to cover this loan in his account.

The following week, he paid his rent on time and in full. The next day, his car tire blew out. He used up all the money in his checking account to replace the tire. When payday came around, he really couldn't afford to hand over $500 to Cash Fast. So he renewed the loan for a fee — another $25.

It took Jamal six months to pay back the loan. He renewed it every two weeks. Each time he renewed the loan, he paid another $25.

How much did he pay to borrow $500 for six months?

$300. 6 months X 2 payments each month X $25 = $300

Does this loan seem like a good deal?

No. This is not a good deal. Paying $300 to borrow $500 is not a good deal. If he had borrowed this money on a credit card with an annual interest rate of 19.99 percent, which is very high for a credit card, he would have only paid $29 in interest paying off the debt in six months. (Note: This was calculated on Bankrate.com calculator.)

PAIR OR SMALL GROUP EXERCISE (continued)

The Trouble With Some Credit and Key Activity: The Trouble With Some Credit Case Studies

KEY ACTIVITY

Susan Makes Minimum Payments on Her Credit Card Balance

Susan opened a credit card. She was 21 and had just transitioned from foster care. Working part time and going to school, she was so excited to have this new card with a $2,000 limit and a 21 percent interest rate. Within a month, she had charged $1,800 worth of clothing, furniture and even a plane ticket to visit her aunt in another state. When the bill came, she was surprised. She owed only $36. What a great deal!

For the next 12 months, she paid only the minimum required on the $1,800 she borrowed using her credit card.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Balance	$1,800.00	$1,795.50	$1,791.01	$1,786.53	$1,782.07	$1,777.61
Payment	$36.00	$35.91	$35.82	$35.73	$35.64	$35.55
Interest paid	$31.50	$31.42	$31.34	$31.26	$31.19	$31.11
Ending balance	$1,795.50	$1,791.01	$1,786.53	$1,782.07	$1,777.61	$1,773.17

	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	TOTALS
Balance	$1,773.17	$1,768.74	$1,764.31	$1,759.90	$1,755.50	$1,751.11	
Payment	$35.46	$35.37	$35.29	$35.20	$35.11	$35.02	**$426.11**
Interest paid	$31.03	$30.95	$30.88	$30.80	$30.72	$30.64	**$372.85**
Ending balance	$1,768.74	$1,764.31	$1,759.90	$1,755.50	$1,751.11	$1,746.74	

After making her payments for 12 months, how much did she still owe?

$1,746.74

How much interest did she pay?

$372.85

How much principal did she pay off?

$426.11 - $372.85 = $53.26

Does this credit arrangement seem like a good deal?

No. When paying only minimum balance, it takes a long time to pay off and the total cost of interest is high. If Susan made the minimum payment only, it would take her more than 30 years to pay off, and she would end up paying $9,308.58 in total.

Even though Susan is paying the minimum balance required by the credit card company, she is paying just enough to cover the interest every month. Very little from each payment is going toward the principal.

If she had paid 5 percent instead of 2 percent, it would have taken her 11 years and cost $957 in interest.

If she had paid a fixed amount of $72 per month, it would have taken her two years and nine months to pay off the loan. She would have paid only $588 in interest.

The Trouble With Some Credit and Key Activity: The Trouble With Some Credit Case Studies

KEY ACTIVITY

Xander Gets Upside Down in His Car Loan

Xander has been on his own for five years. After leaving foster care, he got a medical assistant associate degree. He has a great job as a medical assistant. The car he has had for the past four years died. He wants to get a new, reliable car. He doesn't have a down payment, but with dealer financing he can get a new SUV for below market price. The new SUV's value is $19,500. His price is $19,000. He borrows the full amount. His equity on the day he buys the car is:

$19,500 (asset value) - $19,000 (liability or loan amount) = $500 (equity)

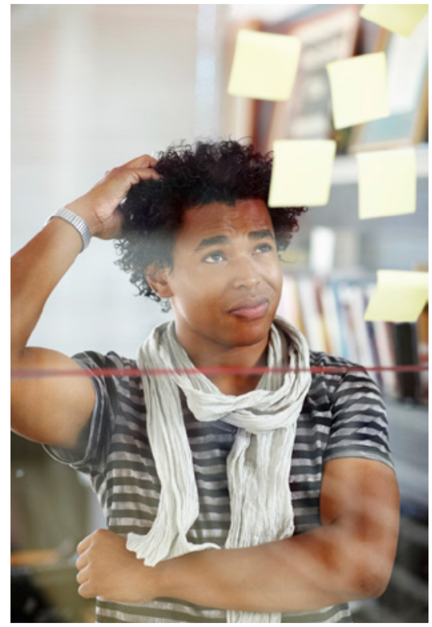
After one year, the SUV will be worth about $15,015. His loan balance would be $16,000. After one year of owning the car, his equity would be:

$15,015 (asset value) - $16,000 (liability or loan amount) = -$985 (equity)‡

Even if he sold his vehicle for the full asset value (which is not always possible), he would have to come up with nearly $1,000 to pay off the loan.

Does this loan seem like a good deal?

No. If he had to sell the vehicle, he would probably not get enough money to pay off the loan.



Dakota Cosigns for a Friend

Dakota's friend has asked him to cosign for an auto loan. Dakota has worked hard to improve his credit. While in foster care, a family member used his credit fraudulently. He has finally built his credit and believes his scores on average are over 700. His friend needs a car to get to and from work. His friend also has two children and having a reliable car would really help him out.

After five months, Dakota finds out his friend has been late with every payment and has not made the most recent payment. He checks his credit reports and sees these negative entries on his credit reports. The bank has also sent Dakota a letter demanding the missed payment.

What should Dakota do?

He needs to talk to his friend about making payments first. If this does not work, he will likely have to deal with the consequences of negative entries to his credit.

Does this credit arrangement seem like a good deal?

No. When cosigning on a loan, you take on the responsibility of the loan, but you don't get the benefit of the item you are cosigning for. Cosigning can seriously, negatively affect your credit. The lender can also come after you for payment if the person you cosign for does not pay.

‡ The depreciation rate used was determined using the Money-zine.com car depreciation calculator. The average depreciation in one year is $5,405.

PAIR OR SMALL GROUP EXERCISE (continued)
The Trouble With Some Credit and Key Activity: The Trouble With Some Credit Case Studies

KEY ACTIVITY

Danielle Buys Her Furniture Rent to Own

Danielle has saved enough money to get her own studio apartment. After years of sharing rooms and apartments, she is happy to be on her own. But she doesn't have any furniture. After paying the first month's rent and a security deposit, she has little to spend on things to put into the apartment. She visited secondhand shops at the encouragement of some friends. But then her partner told her about rent-to-own stores. She can get a complete living room set, a queen bed and mattress with a matching night stand and television for $89.96/week.

	COST TO BUY	WEEKLY PRICE	TOTAL PAYMENTS	NUMBER OF PAYMENTS
Living room set	$1,637	$29.99	$2,729	91
Television	$859	$19.99	$1,439	72
Queen bedroom set and mattress	$1,372	$39.98	$2,298	58
TOTALS	$3,868	$89.96	$6,466	

What are her weekly payments for this furniture?

$89.96

If she saved money and purchased the same furniture, how much would she pay?

$3,868

How much will she pay in total for this furniture?

$6,466

Does this credit arrangement seem like a good deal?

If you look at the total price of the furniture, she will end up paying almost double the amount. However, if she saved, it may take her months or years to save the money to buy the furnishings for her apartment.

It's also important to note the terms of some of these arrangements. For example, in some arrangements, one late or missed payment may result in repossession of the item(s).

INDIVIDUAL ACTIVITY (optional)
Wrap Up: Getting the Credit and Loans You Need

5
minutes

- Congratulate participants on finishing up.
- Instruct participants to complete the wrap-up page.
- After 5 minutes, review the answers in a participatory way — ask individuals to shout out their responses.

WRAP UP: Getting the Credit and Loans You Need

Congratulations on finishing this section of ***Keys to Your Financial Future.***

Let's check what you learned:

1. Credit is owing someone else money.
   - ☐ True ☑ False

2. A creditor is someone who borrows money from an individual or business.
   - ☐ True ☑ False

3. Capacity answers the question: Can you pay back the loan?
   - ☑ True ☐ False

4. Which of the following features describe an installment loan? *(select all that apply)*
   - ☑ a. You borrow a specific amount
   - ☑ b. You borrow for a set amount of time.
   - ☐ c. The amount you pay changes every month.
   - ☑ d. Your monthly payment is the same unless you have a variable rate.
   - ☐ e. You have a credit limit and can use up to that amount.

5. A secured loan has collateral or an asset attached to it. If you don't pay the loan, you can lose the collateral or asset.
   - ☑ True ☐ False

6. Which of the following are consequences of late payments or default on a loan? *(select all that apply)*
   - ☑ a. Negative entries on your credit reports
   - ☑ b. Garnishment
   - ☑ c. Lawsuits from creditors
   - ☑ d. Unable to qualify for other loans
   - ☐ e. There are no consequences

7. Cosigning a loan does not mean you are responsible for the loan. It's okay if you really like the person you are cosigning for.
   - ☐ True ☑ False

CLOSING
Key Information From This Section

2 minutes

- Review the Key Information From This Section.

CLOSING ACTIVITY (optional)

5 minutes

- Ask each person to answer the following question:
    - o What one piece of information from this key would you want to be sure your best friend understood?

- Use round-robin technique to solicit answers one at a time from participants.

- Consider writing answers on a flipchart or whiteboard.

Key Information From This Section

- ☐ **CREDIT IS THE ABILITY TO BORROW MONEY.** Credit can allow you to buy things now and pay for them later, including education, a car, a business or other assets. However, credit obligates or commits future income you have not yet earned.

- ☐ **PEOPLE WHO LEND MONEY ARE CALLED CREDITORS OR LENDERS.** They lend money to make money. They make money on interest and fees.

- ☐ **UNDERSTANDING HOW CREDIT DECISIONS ARE MADE CAN PREPARE YOU FOR APPLYING FOR A LOAN.** Remember, different lenders emphasize different criteria, but they'll generally review your capacity, character, collateral and capital.

- ☐ **WITH INSTALLMENT LOANS, YOU BORROW A SPECIFIC AMOUNT FOR A SPECIFIC PERIOD.** Your monthly payment will be the same. With revolving credit, you are approved up to a credit limit. Your monthly payment is based on what you borrow.

- ☐ **THERE ARE DIFFERENT CONSEQUENCES FOR NOT PAYING LOANS OR GOING INTO DEFAULT.** Understand the consequences so you can prioritize payments should you be short on funds to cover all your debt obligations.

- ☐ **LEARN ABOUT CREDIT SITUATIONS THAT CAN GET YOU INTO TROUBLE AND TRY TO AVOID THEM.** Remember, if you cosign for a loan, you are just as responsible for the loan as the person you are cosigning for, but you don't get the benefit of the loan.

ABOUT THE ANNIE E. CASEY FOUNDATION

The Annie E. Casey Foundation is a private philanthropy that creates a brighter future for the nation's children by developing solutions to strengthen families, build paths to economic opportunity and transform struggling communities into safer and healthier places to live, work and grow.

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ABOUT THE JIM CASEY YOUTH OPPORTUNITIES INITIATIVE

A unit of the Casey Foundation, the Jim Casey Youth Opportunities Initiative® works to improve outcomes for all young people in the United States ages 14 to 26 who have spent at least one day in foster care after their 14th birthday — a population of nearly 1 million. Working with 17 sites across the country, the Jim Casey Initiative influences policy and practices to improve outcomes for teenagers and young adults who have experienced foster care as they transition to adulthood.